IMPACT OF CURRENT ACCOUNT DEFICIT ON ECONOMIC GROWTH: A COMPARATIVE STUDY OF SELECTED DEVELOPING COUNTRIES

A

SYNOPSIS

FOR THE DEGREE OF DOCTOR OF PHILOSOPHY

IN

DEPARTMENT OF APPLIED BUSINESS ECONOMICS

FACULTY OF COMMERCE

UNDER THE SUPERVISION OF

Prof. VIJAY KUMAR GANGAL
Department of Applied Business Economics
Faculty of Commerce

SUBMITTED BY

Ms. ANURADHA AGARWAL
Research Scholar

DAYALBAGH EDUCATIONAL INSTITUTE
(DEEMED UNIVERSITY)
DAYALBAGH, AGRA-282110
2013

Table of Contents

Page No.

1.0 INTRODUCTION……..……1

1.1 Meaning of Current Account Deficit

1.2 Components of Current Account

1.3 Current Account Balance: Calculation

2.0 DEVELOPING COUNTRIES-:AN OVERVIEW……...…….…….…..4

2.1 List of Developing Countries

2.2 Selected Developing Countries

2.3 Current Account Balance- Present Position of Selected Developing Countries

3.0 REVIEW OF EARILER STUDIES…….…..11

4.0 NEED OF THE STUDY…….……..…19

5.0 OBJECTIVES OF THE STUDY……..19

6.0 RESEARCH DESIGN AND METHODOLOGY ……20

6.1 Hypotheses

6.2 Scope of Study

6.3 Data Collection

6.4 Research Methodology

7.0 CHAPTERS PLAN……....23

REFERENCES……..……..……24

BOOKS…….....……25

JOURNALS…….....…….25

WEBSITES……..…….……..…….....….26

NEWSPAPER…….....…..…27

1. INTRODUCTION

The current account deficit is an important signal of competitiveness and the level of imports and exports. A large current account deficit usually implies some kind of imbalance in the economy, which needs correcting with depreciation in the exchange rate and / or improved competitiveness over time. However, it is not straightforward a current account deficit can often be reduced naturally over time as capital flows cause revaluation in the exchange rate. In the short-term, a current account deficit is mostly advantageous. Foreigners are willing to invest capital into a country to drive economic growth beyond the domestic boundary. However, in the long term, a current account deficit can drain economic vitality. Demand could weaken for the country's assets, including the country's government bonds. As this happens, yields will rise and the national currency will gradually lose value relative to other currencies. This automatically lowers the value of the assets in the foreign investors' currency, which is now getting stronger. This further depresses the demand for the country's assets and could lead to a tipping point, at which investors will dump the assets at any price. **The current account deficit is also known as current account imbalance.**

1.1 MEANING OF CURRENT ACCOUNT DEFICIT

The current account is one of the two primary components of the balance of payments. The balance of payments (BOP) is the place where countries record their monetary transactions with the rest of the world. And Current account deficit is a result of current account imbalance. CAD occurs when a country's total imports of goods, services and a transfer is greater than the country's total export of goods, services and transfers. This situation makes a country a net debtor to the rest of the world.

Current account deficit occurs when a country's government, businesses and individuals imports more goods, services—such as banking and insurance and capital than it exports. That's because the current account measures trade, as well as international income, direct transfers of capital, and investment income made on asset[1].

[1] The report of Bureau of Economic Analysis

So the amount by which money going out of a country through imports, investment, and services is greater than money coming into the country is known as current account deficit. CAD is usually measured as a percentage of GDP (Gross Domestic Product).

A substantial current account deficit is not necessarily a bad thing for certain countries. It could be a positive for growth some time whereas some time it may be a negative sign, indicating country's credit risk. Developing counties may run a current account deficit in the short term to increase local productivity and exports in the future. But in long run this is a not desirable situation for a domestic economy.[2]

1.2 COMPONENTS OF CURRENT ACCOUNT

It measures the change over time in the sum of three separate accounts:

1. The Trade Account

The trade account measures the difference between the value of exports and imports of goods and services. A trade deficit occurs when a country imports more than it exports. The trade deficit is by far the largest component of the current account deficit. In fact, fluctuations in the trade deficit are the primary cause of fluctuations in the current account deficit.

2. The Income Account

The income account measures the income payments made to foreigners and net of income payments received from foreigners. The income account largely reflects interest payments made by a country on its foreign debt and interest received by a country on its foreign assets. An income deficit arises when the value of income paid to foreigners exceeds the value of income received from foreigners.

3. The Cash Transfer Account

The third component of the deficit is direct transfers, which includes government grants to foreigners. It also includes any money sent back to their home countries by foreigners. Direct transfers refer to money transferred without exchanging any goods or services. For example: An Indian worker, who works abroad and sending money (remittance) to his family in India.

[2] ibid

1.3 CURRENT ACCOUNT BALANCE (CAB): CALCULATION

On the basis of components of CAD the following variables go into the calculation of the current account balance (CAB):

X = Exports of goods and services

M = Imports of goods and services

NY = Net income abroad

NCT = Net Cash transfers

The formula is: CAB = X - M + NY + NCT[3]

Conceptually, the balance of payments accounts must sum to zero. That is, the following accounting identity must hold:

Current Account Balance + Capital Account Balance = 0.

Capital account balance includes net purchase of domestic financial assets by foreigners and the net purchase of foreign financial assets by domestic citizens.

The accounting identity indicates that if a country experiences a deficit on its current account, it must simultaneously experience a surplus on its financial account. but in the real world this is improbable, so if the current account has a surplus or a deficit, this tells us something about the government and state of the economy in question, both on its own and in comparison to other world markets.

A surplus is indicative of an economy that is a net creditor to the rest of the world. It shows how much a country is saving as opposed to investing. What this means is that the country is providing an abundance of resources to other economies, and is owed money in return. By providing these resources abroad, a country with a CAB surplus gives other economies the chance to increase their productivity while running a deficit. This is referred to as financing a deficit.[4]

A deficit reflects government and an economy that is a net debtor to the rest of the world. It is investing more than it is saving and is using resources from other economies to meet its domestic consumption and investment requirements. For example, let us say an economy decides that it needs to invest for the future (to receive investment income in the long run), so instead of saving, it sends the money abroad into an investment project. This would be marked as a debit in the financial account of the balance of payments at that period of time, but when future returns are made, they would be entered as investment income (a credit) in the current account under the income section.[5]

[3] Formula for the Current Account Balance by Leigh Harkness: buoyant economies

[4] The report of Bureau of Economic Analysis

5 ibid

2. DEVELOPING COUNTRIES - AN OVERVIEW

A developing country, also called a less-developed country (LDC), is a nation with a low living standard, underdeveloped industrial base, and low Human Development Index (HDI) relative to other countries. There are no universal, agreed-upon criteria for what makes a country developing versus developed and which countries fit these two categories, although there is general reference points such as the size of a nation's GDP compared to other nations. Countries with more advanced economies than other developing nations but that has not yet demonstrated signs of a developed country, are often categorized under the term newly industrialized countries.[6]

2.1 LIST OF DEVELOPING COUNTRIES

The following are considered emerging and developing economies according to the International Monetary Fund‘s World Economic Outlook Report, April 2013.

Table-1 list of Developing Countries

Afghanistan	Albania	Algeria	Angola
Antigua and Barbuda	Argentina	Armenia	Azerbaijan
Bahamas	Bahrain	Bangladesh	Barbados
Belarus	Belize	Benin	Bhutan
Bolivia	Bosnia and Herzegovina	Botswana	Brazil (Newly industrialized country as of 2011)
Bulgaria	Burkina Faso	Burma	Burundi
Cambodia	Cameroon	Cape Verde	Central African Republic
Chad	Chile	China (Newly industrialized country as of 2011)	Colombia
Comoros	Democratic Republic of the Congo	Republic of the Congo	Costa Rica
Dominican Republic	Croatia	Djibouti	Dominica
Equatorial Guinea	Ecuador	Egypt	El Salvador
Gabon	Eritrea	Ethiopia	Fiji
Grenada	The Gambia	Georgia	Ghana
Guyana	Guatemala	Guinea	Guinea-Bissau
India (Newly industrialized country as of 2011)	Haiti	Honduras	Hungary
Jamaica	Indonesia	Iran	Iraq
Kiribati	Jordan	Kazakhstan	Kenya
Latvia	Kuwait	Kyrgyzstan	Laos
Libya	Lebanon	Lesotho	Liberia
Malawi	Lithuania	Macedonia	Madagascar

6 www.wikipedia.com

Marshall Islands	Malaysia (Newly industrialized country as of 2011)	Maldives	Mali
Federated States of Micronesia	Mauritania	Mauritius	Mexico(Newly industrialized country as of 2011)
Morocco	Moldova	Mongolia	Montenegro
Nepal	Mozambique	Namibia	Nauru
Oman	Nicaragua	Niger	Nigeria
Papua New Guinea	Pakistan	Palau	Panama
Rwanda	Qatar	Romania	Russia
Samoa	Saint Kitts and Nevis	Saint Lucia	Saint Vincent and the Grenadines
Serbia	São Tomé and Príncipe	Saudi Arabia	Senegal
Somalia	Seychelles	Sierra Leone	Solomon Islands
Sudan	South Africa (Newly industrialized country as of 2011)	South Sudan	Sri Lanka
Tajikistan	Suriname	Swaziland	Syria
Togo	Tanzania	Thailand (Newly industrialized country as of 2011)	Timor-Leste
Turkey (Newly industrialized country as of 2011)	Tonga	Trinidad and Tobago	Tunisia
Ukraine	Turkmenistan	Tuvalu	Uganda
Vanuatu	United Arab Emirates	Uruguay	Uzbekistan
Zambia	Zimbabw	Vietnam	Yemen

Source: IMF Advanced Economies List. World Economic Outlook, April 2013, p. 173**.**

2.2 SELECTED DEVELOPING COUNTRIES

From the above table of developing countries the researcher has selected the five emerging and developing countries in which almost countries are newly industrialized as of 2011 named as Brazil, China, India, Russia and South Africa.

These developing countries are distinguished from a host of other promising emerging markets by their demographic and economic potential to rank among the world's largest and most influential economies in the 21st century (and by having a reasonable chance of realizing that potential). Together, the five original BRICS countries comprise more than 2.8 billion people or 40 percent of the world's population, cover more than a quarter of the world's land area over three continents, and account for more than 25 percent of global GDP. One of the greatest advantages of these countries is abundance of most valuable natural resources. Continuing demand from the West the ambitious plans of emerging markets are driving an insatiable appetite for these natural resources, keeping demand strong. This creates opportunities for emerging markets to trade with each other, with Brazil and Russia helping to satisfy China's hunger for agricultural and other basic commodities. Additionally emerging markets are largely free of debt problems both on government and consumer level.[7.]

BRAZIL

Brazil is characterized by large and well-developed agricultural, mining, manufacturing, and service sectors, Since 2003, Brazil has steadily improved its macroeconomic stability, building up foreign reserves, and reducing its debt profile by shifting its debt burden toward real denominated and domestically held instruments. In 2008, Brazil became a net external creditor and two ratings agencies awarded investment grade status to its debt. After strong growth in 2007 and 2008, the onset of the global financial crisis hit Brazil in 2008. Brazil experienced two quarters of recession, as global demand for Brazil's commodity-based exports dwindled and external credit dried up. However, Brazil was one of the first emerging markets to begin a recovery. In 2010, consumer and investor confidence revived and GDP growth reached 7.5%, the highest growth rate in the past 25 years. Rising inflation led the authorities to take measures to cool the economy; these actions and the deteriorating international economic situation slowed growth to 2.7% in 2011, and 1.3% in 2012.[8]

[7] The BRICS Report, Oxford university Press, New Delhi, 2012, p-ix

[8] CIA The World Fact book; country data and statistics

CHINA

China is playing a major global role since the late 1970s China has moved from a closed, centrally planned system to a more market-oriented and became the world's largest exporter in 2010. In recent years, China has renewed its support for state-owned enterprises in sectors it considers important to "economic security," explicitly looking to foster globally competitive national champions. After keeping its currency tightly linked to the US dollar for years, in July 2005 China revalued its currency by 2.1% against the US dollar and moved to an exchange rate system that references a basket of currencies. The restructuring of the economy and resulting efficiency gains have contributed to a more than tenfold increase in GDP since 1978. Measured on a purchasing power parity (PPP) basis that adjusts for price differences, China in 2012 stood as the second-largest economy in the world after the US, having surpassed Japan in 2001. The dollar values of China's agricultural and industrial output each exceed those of the US; China is second to the US in the value of services it produces. Still, per capita income is below the world average. One consequence of population control policy is that China is now one of the most rapidly aging countries in the world. Deterioration in the environment - notably air pollution, soil erosion, and the steady fall of the water table, especially in the North - is another long-term problem. The government's 12th Five-Year Plan, adopted in March 2011, emphasizes continued economic reforms and the need to increase domestic consumption in order to make the economy less dependent on exports in the future. However, China has made only marginal progress toward this rebalancing goals.[9]

INDIA

India is developing into an open-market economy, yet traces of its past autarkic policies remain. Economic liberalization measures, including industrial deregulation, privatization of state-owned enterprises, and reduced controls on foreign trade and investment, began in the early 1990s and have served to accelerate the country's growth, which averaged fewer than 7% per year since 1997. India's diverse economy encompasses traditional village farming, modern agriculture, handicrafts, a wide range of modern industries, and a multitude of services. Slightly more than half of the work force is in agriculture, but services are the major source of economic growth, accounting for nearly two-thirds of India's output, with less than one-third of its labor force.

---

[9] CIA The World Factbook; country data and statistics

India has capitalized on its large educated English-speaking population to become a major exporter of information technology services, business outsourcing services, and software workers. In 2010, the Indian economy rebounded robustly from the global financial crisis - in large part because of strong domestic demand - and growth exceeded 8% year-on-year in real terms. However, India's economic growth began slowing in 2011 because of a slowdown in government spending and a decline in investment, caused by investor pessimism about the government's commitment to further economic reforms and about the global situation. High international crude prices have exacerbated the government's fuel subsidy expenditures, contributing to a higher fiscal deficit and a worsening current account deficit. In late 2012, the Indian Government announced additional reforms and deficit reduction measures to reverse India's slowdown, including allowing higher levels of foreign participation in direct investment in the economy. The outlook for India's medium-term growth is positive due to a young population and corresponding low dependency ratio, healthy savings and investment rates, and increasing integration into the global economy.[10]

RUSSIAN FEDERATION

Russia has undergone significant changes since the collapse of the Soviet Union, moving from a globally-isolated, centrally-planned economy to a more market-based and globally-integrated economy. Economic reforms in the 1990s privatized most industry, with notable exceptions in the energy and defense-related sectors. The protection of property rights is still weak and the private sector remains subject to heavy state interference. In 2011, Russia became the world's leading oil producer, surpassing Saudi Arabia; Russia is the second-largest producer of natural gas; Russia holds the world's largest natural gas reserves, the second-largest coal reserves, and the eighth-largest crude oil reserves. Russia is also a top exporter of metals such as steel and primary aluminum. Russia's reliance on commodity exports makes it vulnerable to boom and bust cycles that follow the volatile swings in global prices. The government since 2007 has embarked on an ambitious program to reduce this dependency and build up the country's high technology sectors, but with few visible results so far. The economy had averaged 7% growth in the decade following the 1998 Russian financial crisis, resulting in a doubling of real disposable incomes and the emergence of a middle class. Russia has reduced unemployment to a record low and has lowered inflation below double digit rates.[11]

[10 & 11] ibid

SOUTH AFRICA

South Africa is a middle-income, emerging market with an abundant supply of natural resources; well-developed financial, legal, communications, energy, and transport sectors and a stock exchange that is the 15th largest in the world. Subsequently, the global financial crisis reduced commodity prices and world demand. South Africa's economic policy has focused on controlling inflation; however, the country has had significant budget deficits that restrict its ability to deal with pressing economic problems. The current government faces growing pressure from special interest groups to use state-owned enterprises to deliver basic services to low-income areas and to increase job growth.[12]

Table 2 - Some Macroeconomic Indicators of Selected Developing Countries over a Period from 2000-2012

indicators	Year	Brazil	China	India	Russia	South Africa
Gross domestic product, constant prices (US $ Billions)	2000	1,024.05	24,825.05	25,331.26	5,219.31	1,301.77
	2012	1545.837	42,890.20	57,772.71	16,661.19	1,954.30
Gross domestic product, constant prices (Percent change)	2000	4.306	10.046	5.708	8.431	4.155
	2012	0.872	3.4	3.986	7.8	2.548
Total investment (Percent of GDP)	2000	18.25	18.694	24.242	35.119	15.697
	2012	17.637	24.463	34.915	46.875	19.414
Gross national savings(Percent of GDP)	2000	14.49	36.729	23.277	36.831	15.568
	2012	15.373	28.484	29.802	49.473	13.152
Volume of imports of goods and services (Percent change)	2000	13.143	16.343	1.952	22.064	5.338
	2012	-2.293	5.369	2.684	6.67	6.286
Volume of exports of goods and services (Percent change)	2000	11.083	7.599	9.974	21.427	8.314
	2012	-0.338	3.071	0.88	5.387	0.116
Unemployment rate (Percent of total labor force)	2000	7.1	10.591	3.599	3.1	23.3
	2012	5.5	6	4.26	4.1	25.2
Population (Millions Persons)	2000	174.425	146.3	1,024.25	1,267.43	44.523
	2012	198.361	141.924	1,223.17	1,354.04	51.197

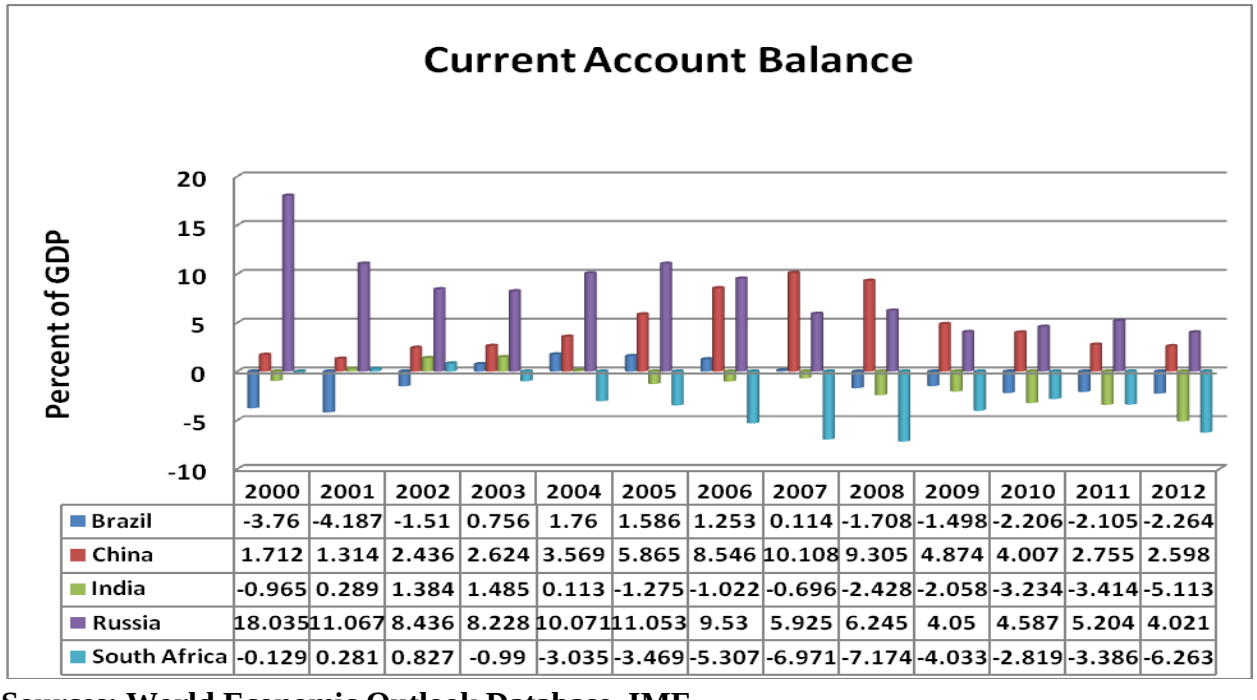
Source: World Economic Outlook Database, IMF

[12] ibid

2.3 CURRENT ACCOUNT BALANCE - PRESENT POSITION OF SELECTED EMERGING DEVELOPING COUNTRIES

The figure 1 shows the current account balance as the percentage of GDP of selected emerging and developing countries while many economies in Asia are doing well despite the glum global economic climate. South Africa has the largest amount of current account deficit i.e. -6.2 followed by the India -5.1 and Brazil -2.2 in the year 2012. Whereas china has the surplus amount of current account balance i.e. 2.59 and the Russia has the largest amount of current account surplus 4.02 in year 2012.

Figure- 1- Current Account Balance in Selected Emerging Developing Countries



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Brazil	-3.76	-4.187	-1.51	0.756	1.76	1.586	1.253	0.114	-1.708	-1.498	-2.206	-2.105	-2.264
China	1.712	1.314	2.436	2.624	3.569	5.865	8.546	10.108	9.305	4.874	4.007	2.755	2.598
India	-0.965	0.289	1.384	1.485	0.113	-1.275	-1.022	-0.696	-2.428	-2.058	-3.234	-3.414	-5.113
Russia	18.035	11.067	8.436	8.228	10.071	11.053	9.53	5.925	6.245	4.05	4.587	5.204	4.021
South Africa	-0.129	0.281	0.827	-0.99	-3.035	-3.469	-5.307	-6.971	-7.174	-4.033	-2.819	-3.386	-6.263

Sources: World Economic Outlook Database, IMF

3.0 REVIEWS OF EARILER STUDIES

The review of the previous studies has been shown that the current account deficit is a wide area for research. The researcher presents a comprehensive review of the studies which have been conducted.

S. No.	Title	Authors	Publication details	Objective	Sample	Tools used	Findings
1.	Determinants of current account Deficits in developing countries	**César Calderón** (University of Rochester) A**lberto Chong** (World Bank) N**orman loayza** (Economista Senior Gerencia de Investigation Económica Banco Central de Chile)	Banco Central de Chile Documentos de Trabajo Central Bank of Chile Working Papers N° 51 (November 1999)	To provide an exhaustive characterization of the empirical linkage between Current account deficits and a broad set of economic variables	44 developing countries	GMM estimator, transitory and permanent effects Model	The study shows that a rise in domestic output growth generates a larger current account deficit; Transitory increases in either public or private saving has a positive effect on the current account, and, in contrast, their permanent changes have insignificant effects. Temporary shocks that increase the terms of trade or appreciate the real exchange rate are linked with higher current account deficits, but their permanent changes do not have significant effects.
2.	Medium-term determinants of current accounts in industrial and developing countries:	**Menzie d. Chinn and Eswar s. Prasad** (Deptt of Economics, University of California,)	Journal of International Economics 59 (Feb 2002)	To provide an empirical investigation of the medium-term determinants of current accounts for a large sample of industrial and developing countries	industrial and developing countries	Cross-section and panel regression analysis	The study results that Current account balances are positively correlated with government budget balances and initial stocks of net foreign assets Among developing countries, measures of financial deepening are positively associated with current account balances while indicators of openness to international trade are negatively correlated with current account balances
3.	Financial openness, Sudden stops and current account reversals	**Sebastian Edwards** (UCLA Anderson Graduate School of Business)	NBER working paper no. 10277 (Jan 2004)	To investigate the mechanics of sudden stops of capital inflows and current account reversals		Panel data analysis	The study indicates that Restricting capital mobility does not reduce the probability of experiencing a reversal. The regression analysis indicates that the negative effects of current account reversals on growth will depend on the country's degree of trade openness: more open countries will suffer less in terms of lower growth relative to trend than countries with a lower degree of trade openness.

4.	Productivity shocks, Budget deficits and The current account	Matthieu Bussière, Marcel Fratzscher and Gernot J. Müller	Working paper series no. 5 0 9 (August 2005)	To evaluate empirically the relative importance of budget deficits and productivity shocks for the determination of the current account	21 OECD countries	Unit root tests and robustness tests	The study find the little evidence for a contemporaneous effect of budget deficits on the current account, while country-specific productivity shocks appear to play a key role.
5.	Is the U.S. current account deficit sustainable? And if not, how costly is adjustment likely to be?	**Sebastian Edwards** (UCLA Anderson Graduate School of Business)	NBER Working Paper No. 11541 (August 2005)	To analyze the relationship between the U.S. dollar and the U.S. current account, deal with issues of sustainability and to discuss the mechanics of current account adjustment	United. State	The simulation model	The study suggest that the future adjustment of the U.S. external accounts is likely to result in a significant reduction in growth
6.	Explaining the global pattern of current account imbalances	Joseph w. Gruber and Steven b. Kamin	International Finance Discussion Papers Number 846 (November 2005)	To explain the global pattern of current account imbalances	United. State	Panel regression analysis	The study shows that a Good performance in per capita income, relative growth rates, the fiscal balance, demographic variables, and economic openness significantly reduces the current account balance. While a model incorporating these factors still fails to predict the large U.S. current account deficit (and, in fact, predicts a slight surplus), it does predict a U.S. current account balance that is relatively weaker than the aggregate balance of developing ASIA.
7.	Perceived welfare effects of current account deficit–evidence from American economy	**Sebastian Stolorz** (Department of Economics University of Oregon)	Working paper Dec 2005	To analysis the negative impact of increasing current account deficit on American economy and society	American economy	OLS regression, unit root test and VAR analysis	The provided analysis shows that opening the economy enhanced observed volatility of the Consumer Confidence, while presence of the current account deficit allowed to obtain superior welfare.
8.	Current account deficit sustainability in	**Aleksander Aristovnik** (Faculty of	Zb. rad. Ekon. fak. Rij. • vol. 24 •	To examines the question of whether the current account deficits	17 transition economie	Milesi Ferretti and Razin' and	The results show that if the observed level of foreign direct investment (FDI) flows is kept in the medium run almost all countries could optimally have a

	selected transition economies	Administration, University of Ljubljana, Slovenia)	sv. 1 • 81-102 (April 2006)	seen in selected transition economies in recent years mainly as a symptom of the dynamic economic activity of the catching-up process are a source of potential macroeconomic destabilization.	s	'Reisen' methods	higher level of external deficit, with the exception of countries such as Baltic States, Hungary, Macedonia, Moldova and Romania. Accordingly, the maintenance of relatively large FDI inflows (especially Greenfield investments) to national economies is a key priority in securing future external sustainability. In the end, the results indicate that current account deficits of transition economies that exceed 5 percent of GDP generally involve problems of their external sustainability.
9.	The determinants and excessiveness of current account deficits in eastern Europe and the former soviet union	**Aleksander Aristovnik** (Faculty of Administration, University of Ljubljana, Slovenia)	William Davidson Institute Working Paper Number 827 June 2006	To investigate the main factors of current account deficits in order to assess the potential excessiveness of current account deficits in selected countries of Eastern Europe and former Soviet Union	Eastern Europe and former Soviet Union	Simulated benchmark	The results confirm that the actual current account balances are generally close to their estimated levels in the 2000-2003 periods in the transition region. This notion is in line with the inter temporal approach to the current account balance, suggesting that higher external deficits are a natural outcome when permanent domestic output exceeds the current one and when current investments and government consumption exceed their permanent levels. Hence, the results suggest that most countries in Eastern Europe and former Soviet Union are justified in running relatively high current account deficits.
10.	Current account balances, financial development and institutions	**Menzie D. Chinn** (University of Wisconsin and NBER) **Hiro Ito** (Portland State University)	**Journal of International Finance and Money** (December 19, 2006)	To investigate the behavior of the U.S. current account in light of previous industrial country experience to investigate whether higher levels of financial development in key East Asian economies would result in smaller current account surpluses	United. State and key East Asian economie s	Panel data analysis	The study find that a one percentage-point increase in the budget balance would increase the current account balance by 0.10 to 0.49 percentage-points for industrialized countries, While more developed financial markets would lead to smaller current account balances for countries with highly developed legal systems and open financial markets, for key east Asian countries, greater financial development would cause higher saving. Asian current account surpluses seem to be driven by depressed investment, not excess saving.

11.	Current account deficits in rich countries	Olivier Blanchard	NBER Working Paper No. 12925 (February 2007)	To examine the effects of deficits on private saving and investment decisions. And to analysis the need of government intervene.	Rich countries		The study shows that There is no need of justification for government intervention
12.	The sustainability of India's current account (1950-2003)	**Mark J. Holmes** (Waikato University, New Zealand) **Theodore Panagiotidis** (University of Macedonia, Greece And The Rimini Center for Economic Analysis, Italy) **Abhijit Sharma** (Bradford University, UK)	The Rimini Centre for Economic Analysis (RCEA) Working Papers series(Oct 2007)	To conduct an investigation into the sustainability of the Indian current account over the study period 1950-2003	India	Parametric and non parametric unit root and Cointegration tests	The study indicate that two distinct regimes are identified characterized by whether or not imports and exports are cointegrated. The regime of non-cointegration runs until the late 1990s and the second regime of cointegration is present after that. This latter regime coincides with the liberalization of the Indian economy.
13.	Analyzing the sustainability of India's current account position following the reforms of the early 1990s	Niloufer Sohrabji	Working paper	To analyzes the sustainability of India's current account position over the last decade	India	Inter temporal solvency model of Hakkio and Rush (1991) and Husted (1992)	The study results are a strong relation between India's current account inflows and outflows. Based on the empirical results, this paper concludes that there has been an improvement in trade patterns and despite experiencing deficits; India's current account position is sustainable.
14.	On the stationarity of current account deficits in the European union	**Mark J. Holmes** (Dept. of Eco, waikato University, New Zealand) **Jesús Otero** (Facultad de Economía, Colombia)	The Rimini Centre for Economic Analysis Working Papers series (July 2009)	To test the stationarity of EU current account deficits	European union	Unit root and panel data testing	The study finds that the current account deficits of the EU countries are sustainable in the long run. Evidence in favor of stationarity is weaker when we consider the largest EU panel or the non-EU panel.

15.	A comparative study on the determinants of current account surpluses and deficits	Hong Ying Ang and Siok Kun Sek	International Journal of Humanities and Applied Sciences (IJHAS) Vol. 1 No. 1 (2011)	To examine the determinants of current account imbalances in two groups of economies, i.e. economies with current account surpluses and economies with current account deficits.	Australia, Cyprus, Italy, Portugal, United States and Germany, Japan, Singapore, Norway, Switzerland	GMM estimator	The study Reported that the explanatory factors have different impacts on current account position across economies. Reserve accumulation has impact on current account movements in economies exhibit current account deficits but not in economies with surpluses. Conversely, productivity only has impact on current account balances in economies exhibit current account surpluses but not in that with deficits. Exchange rate, oil price and previous current account levels have significant impact on current account movements in majority economies from these two categories economies.
16.	Global imbalances and capital account openness: an empirical analysis	**Jamel Saadaoui**, (University of Paris North, Center of Economics of Paris North)	Nov 2011	To investigate the major role of capital account openness in the evolution of global imbalances on the period 1980-2003	Industrialized and emerging countries	Panel regression techniques	The study shows that by increasing the opportunities of overseas investments, the relative capital account openness has had positive impact on medium run current account balances of industrialized countries (because of downward pressures on domestic investment rates). Conversely, the relative capital account openness has had negative impact on medium run current account balances of emerging countries (because of upward pressures on domestic investment rates). The evolutions of domestic and foreign capital account openness have allowed increasing medium run current account balances in absolute value during this period.
17.	Sustainability of current account deficit in Mauritius: towards a reversal?	**A J Khadaroo and I Ramlall** (Department of Economics and Statistics University of Mauritius)	March 2012	To investigate the sustainability of the current account deficit of	Mauritius	Cointegration and Errorcorrection Modelling	Total exports and total imports are not cointegrated but the inclusion of income plus transfers, on a net basis, leads to a Cointegrating vector which is, strictly, not compatible with a sustainable current account. The absence of sustainability stems mainly from a growing imbalance between exports and Imports of goods.

18.	the relationship between current account and government budget balance: the case of kuwait	**Ebrahim Merza (**Economics Department Kuwait University) **Mohammad Alawin (**Economics Department The University Jordan Amman, Jordan) **Ala' Bashayreh (**Economics Department The University Jordan Amman, Jordan)	International Journal of Humanities and Social Science Vol. 2 No. 7; (April 2012)	to examine the twin deficits hypothesis (an increase in the budget deficit will cause a similar increase in current account deficit) for Kuwait for the quarterly period (1993:4 - 2010:4)	kuwait	Cointegration regression and VAR model	The study indicate a negative long-run relationship between current account and budget balance that is an increase in current account causes a decrease in the government budget surplus or an increase in budget deficit. This finding fits the Kuwaiti economy; since an improvement in the current account driven primarily by the improvement in the trade balance will cause the central government to spend more than it receive in revenue causing a decrease in government budget surplus or an increase in government budget deficit.
19.	Sustainable level of India's current account deficit	**Rajan Goyal** (Department of economic and policy research)	RBI WORKING PAPER SERIES (Aug 2012)	To estimate sustainable level of current account deficit (CAD) for India	India	`Domar's model of debt sustainability	The study conclude that Cad between 2.4 to 2.8 per cent of GDP is sustainable over the medium term under the assumptions that GDP growth ranges between 6.0 and 8.0 per cent, inflation hovering around 5.0 per cent level and interest rate and size of capital flows broadly following their trends in the recent past.
20.	Determinants of current account Imbalances in the global economy: a Dynamic panel analysis	**Debasish Kumar Das** (University of Warwick, Department of Economics)	MPRA Paper No. 42419 (30. September 2012)	To present an empirical investigation of the determinants of current account Imbalance for the large sample of developed, emerging and developing countries	The large sample of developed, emerging and developing countries	Dynamic panel and GMM techniques	The study Characterize that current account balance are positively correlated with net foreign assets, trade openness and exchange rate stability and negatively associated\ with commodity price, real GDP growth and real effective exchange rate for the developed countries. While, among emerging countries, commodity price, real GDP growth, trade openness and De;jure capital openness is positively and net foreign asset, exchange rate stability index is negatively related with current account balance

21.	foreign direct investment and current Account deficit- a causality analysis in context of India	**Manpreet Kaur** (HOD, Vivekananda School of Management, Delhi, India **Surendra S. Yadav and Vinayshil Gautam** (Professors, Indian Institute)	Journal of International Business and Economy (2012)	To investigate the relationship between Foreign Direct Investment (FDI) and current account in the context of India	India	Granger causality techniques and impulse response function	The study results indicate that FDI and current account are co-integrated in the long run. There is evidence of unidirectional causality from FDI to current account. Furthermore, the analysis of FDI and international trade components (Exports and Imports), which are the major constituents of current account, supports our results of granger causality. Also, an attempt has been made to provide for the impact of FDI on current account through impulse response function.
22.	The persistence of current account balances and its determinants: the implications for global rebalancing	Erica Clower and Hiro Ito	ADBI Working Paper Series No. 400 (December 2012)	To examine the statistical nature of the persistency of current account balances and its determinants.	a panel of 70 countries	Unit root test and Markov switching (ms)-ADF process	The study concluded that the Lack of trade openness, net foreign assets, and financial development help increase the degree of current account persistence. The type of exchange rate regimes is not found to be a robust determinant of current account persistence, but fixed exchange rate regime is more likely to lead an emerging market country to enter non stationary current account regime
23.	Reassessment of sustainability Of current account deficit in India	**AVIRAL KUMAR TIWARI** (ICFAI University, Tripura)	South-Eastern Europe Journal of Economics 67-79 (2012)	To examine the long-run relationship between oil and non-oil exports and imports, in order to see whether the current account deficit in India is sustainable	India	Cointegration analysis	There is a strong evidence of a long-run relationship between non-oil exports and imports and no evidence in the case of oil exports and imports. This implies that a foreign trade deficit is sustainable in the Indian context for non-oil commodities but not for oil commodities
24.	The association between current account deficit and house prices in turkey	**Ali Hepşen and Mehmet Aşıcı** (Istanbul University, Faculty of Business Administration, Department of Finance, Istanbul).	Journal of Applied Finance & Banking, vol. 3, no. 3, 65-79 (2013)	To investigate the relation between current account deficit of Turkey and house prices in the country	Turkey	classical linear regression model	Current account deficit is positively associated with house price changes in turkey GDP per capita growth is not significantly associated with house price changes. Not surprisingly, inflation is also positively associated to house prices

25.	Current account reversals In industrial countries Does the exchange Rate regime matter?	**Cosimo Pancaro_In**	Working Paper Series no 1547 (may 2013)	To study the current account reversals in industrial countries across different exchange rate regimes.	Industrial Countries	Treatment effects model, Probit model and robustness analysis	The study shows that Lower reserves growth, higher domestic credit growth, higher us interest rates and a more closed economy raise the probability of a reversal only under less flexible exchange rate regimes. Real exchange rate depreciation, on the other hand, is a significant trigger only under more flexible regimes. Furthermore, the treatment effects model suggests that adjustments of current account imbalances are not per se harmful to economic activity, neither in the sample as a whole nor in the sub- sample of fixed exchange rate regimes.

RESEARCH GAP

The researcher has reviewed the earlier studies related to current account deficit and found that many researcher, have analyzed the determinants of CAD, relationship between Global imbalances and capital account openness, and the sustainable level of Current account deficit (CAD) in different countries. The studies reveled that capital account openness has a positive impact on current account balance and Current account deficit was found sustainable in the long run in most of the countries.

The research gaps of the study are as follows:

Gap 1- No study has been found by researcher in which the selected developing countries have been ranked on the basis of their Current Account Deficit and no one has been used the questionnaire to indentify the major determinants of current account deficit.

Gap 2- No study has been conducted so far in reference to selected developing countries in which the effect of current account deficit on economic growth has been studied.

4.0 NEED OF THE STUDY

On the basis of previous studies researcher concludes that management of current account deficit is an important issue for a country because it affects the whole economy and depreciates in the value of its currency. At present Indian rupee is struggling against dollar due to import of crude oil and gold worth of billions of dollar which is increasing amount of current account deficit that's why researcher has taken this study to know that up to what extent financial openness affect the probability of a country being subject to a current account deficit and to study the role of trade openness and financial openness in determining the effect of current account deficit on the economic growth of India and other Selected Emerging and Developing Countries (Brazil, China India, Russia and South Africa). **In the proposed study researcher will attempt to measure the effect of current account balance to economic growth and to measure the impact of financial openness, Trade openness to an economy as a whole.**

5.0 OBJECTIVES OF THE STUDY

The study will be based on the following objectives:

- To study the trend of current account deficit of selected emerging developing countries during the study period (i.e., from 2000 to 2014).
- To identify the determinants of current account deficit and to know their impact on current account balance of selected countries.
- To investigate the relationship between financial openness, trade openness and current account balance in the context of selected countries.
- To analysis the impact of current account deficit on the economic growth of selected emerging developing countries.
- To predict the current account deficit and its impact on the economic growth of the selected emerging developing countries by using an appropriate model.

6.0 RESEARCH DESIGN & METHODOLOGY

Research design & methodology is the back bone of any research study. The researcher proposes the following research procedure for this study:

6.1 HYPOTHESIS

To gives the scientific base to the study, the following hypotheses will be tested in the study:

$H_0$1:- Country to country, the determinants of current account deficit are independent.

$H_0$2:- Financial openness and current account balance of the selected emerging developing countries are independent to each other.

$H_0$3:- Trade openness and current account balance of the selected emerging developing countries are independent to each other.

$H_0$4:- Country to country, the current account deficit and the economic growth are independent to each other.

6.2 SCOPE OF THE STUDY

Sample Size

The research includes the study of current account balance of five selected emerging developing countries named as

- Brazil
- China
- India
- Russian Federation
- South Africa

Duration of the Study

For the purpose of analyzing the data a period of last 15 years (i.e., from 2000 to 2014) will be taken into consideration

Variables of the study

The determinants of CAD will be identified by reviewing available literature and by taking the views of expert and academicians working in this area through structured questionnaire. The Chinn-Ito index (KAOPEN) will be used as a measure of degree of capital or financial openness. Trade ratio will be used to measure the trade openness. And the determinants like Gross domestic product (GDP), national income, Industrial Production and more other variables may be included to measure the impact of CAD on the economic growth of selected developing countries.

The description and sources of the above variable are as follows:

Data Description and Sources

Variable	Description	Source
Chinn-Ito index (KAOPEN)	It is a measure of degree of capital or financial openness, initially introduced in Chinn and Ito (Journal of Development Economics, 2006). It is based on the binary dummy variables that codify the tabulation of restrictions on cross-border financial transactions reported in the IMF's Annual Report on Exchange Arrangements and Exchange Restrictions (AREAER). The Chinn-Ito index is normalized between 0 and 1. Higher values of this index indicate that a country is more open to cross border capital transactions.	www.Chinn-Ito index
Trade ratio	Trade ratio is the sum of exports and imports measured as a share of gross domestic product.	www.worldbank.com
Real GDP growth rate	Real GDP growth rate is a measure of the rate of change in GDP from one year to another.	www.worldbank.com
Industrial Production	The annual percentage increase in industrial production (includes manufacturing, mining, and construction).	www.worldbank.com
National Income	The sum of income taken from all sectors, including personal, business and government. NNI = C + I + G + NX + NFF - IT - D	www.worldbank.com

Where: C = Consumption, I = Investments, G = Government spending, NX = Net exports (calculated by subtracting imports from exports), NFF = Net foreign factor income, IT = Indirect taxes, D = Depreciation.

6.3 DATA COLLECTION

In order to examine, evaluate and analyses the study primary and secondary data will be taken into consideration.

Primary Data

The primary data will be collected through the structured questionnaire to identify the major determinants of current account deficit by experts and academicians working in this area. In this questionnaire, the researcher will cover the various determinants of CAD find as per the study of reviewing available literature.

Secondary Data

Secondary Data will be collected through publications of ministry of finance, IMF, UNDP, UNESCO website, journals, magazines books and newspapers.

6.4 RESEARCH METHODOLOGY

Research methodology is an important constitutes of the research plan. As per the objectives of study the following research methodology will be used:

Objectives	Research Methodology
To study the trend of current account deficit of selected emerging developing countries	Through the time series analysis the slope of the current account deficit will be calculated and on the basis of it each country will be ranked.
To identify the major determinants of current account deficit and to know their impact on current account balance of selected countries.	To identify the major determinants of current account deficit, questionnaire will prepare to take the views of expert and academicians working in this area and requested to give rank to different determinants of CAD, which are listed by reviewing the available literature and factor analysis will also be used to help it. Thereafter regression analysis and VAR model will be used to know the impact of identified major determinants on current account deficit of selected countries.
To investigate the relationship between financial openness, trade openness and current account balance in the context of selected countries.	To test the null hypothesis of relationship between financial openness, trade openness and current account balance 'Unit Root test', 'Granger Causality', 'and impulse response function' will be used.
To analysis the impact of current account deficit on the economic growth of selected emerging developing countries.	Regression analysis and VAR model will be used to analysis the impact of current account deficit on the economic growth of selected countries.

TOOLS AND TECHNIQUES OF STUDY

For the purpose of analyzing the data following statistical and econometric tools and techniques will be used:

- Descriptive Statistic
- Regression Analysis
- Unit Root Test
- Granger Causality
- VAR Model and
- Panel Models etc.

CHAPTER PLAN

Chapter-1	Current Account Deficit (A) An Overview (B) Review of earlier studies
Chapter-2	Research Outlay
Chapter-3	An overview of selected Developing Countries
Chapter-4	Data Analysis and interpretation
Chapter-5	Findings
Chapter-6	Conclusion and Suggestion

REFERENCES

- César Calderón, Alberto Chong and Norman loayza "Determinants of current account Deficits in developing countries" 1999
- Menzie d. Chinn and Eswar s. Prasad "Medium-term determinants of current accounts in industrial and developing countries" Feb 2002
- Sebastian Edwards "Financial openness, Sudden stops and current account reversals" Jan 2004
- Matthieu Bussière, Marcel Fratzscher and Gernot J. Müller "Productivity shocks, Budget deficits and the current account" August 2005
- Sebastian Edwards "Is the U.S. current account deficit sustainable? And if not, how costly is adjustment likely to be" August 2005
- Joseph w. Gruber and Steven b. Kamin, "Explaining the global pattern of current account imbalances" Nov 2005
- Sebastian Stolorz "Perceived welfare effects of current account deficit– evidence from American economy 1967 – 2005" Dec 2005
- Aleksander Aristovnik Current account deficit sustainability in selected transition economies, April 2006
- Aleksander Aristovnik "The determinants and excessiveness of current account deficits in eastern Europe and the former soviet union" June 2006
- Menzie D. Chinn & Hiro Ito "Current account balances, financial development and institutions" December 19, 2006
- Olivier Blanchard "Current account deficits in rich countries" February 2007
- Mark J. Holmes, Theodore Panagiotidis and Abhijit Sharma The sustainability of India's current account (1950-2003) Oct 2007
- Niloufer Sohrabji "Analyzing the sustainability of India's current account position following the reforms of the early 1990s"
- Mark J. Holmes and Jesús Otero "On the stationarity of current account deficits in the European union" July 2009
- Hong Ying Ang and Siok Kun Sek "A comparative study on the determinants of current account surpluses and deficits" 2011
- Jamel Saadaoui Global imbalances and capital account openness: an empirical analysis, Nov 2011

- A J Khadaroo and I Ramlall "Sustainability of current account deficit in Mauritius: towards a reversal" March 2012
- Ebrahim Merza, Mohammad Alawin and Ala' Bashayreh (Economics Department The University Jordan Amman, Jordan)
- Rajan Goyal "Sustainable level of India's current account deficit" Aug 2012
- Debasish Kumar Das "Determinants of current account Imbalances in the global economy: a Dynamic panel analysis" September 2012
- Manpreet Kaur, Surendra S. Yadav and Vinayshil Gautam "foreign direct investment and current account deficit- a causality analysis in context of India" 2012
- Erica Clower and Hiro Ito "The persistence of current account balances and its determinants: the implications for global rebalancing" December 2012
- Aviral Kumar Tiwari "Reassessment of sustainability of current account deficit in India" 2012
- Ali Hepşen and Mehmet Aşıcı "The association between current account deficit and house prices in turkey" 2013
- Cosimo Pancaro In "Current account reversals In industrial countries" May 2013

BOOKS

- Balance of Payments: Theory and Policy: the Indian Experience: Asim K. Karmakar, Deep & Deep publications Private ltd 2010
- Methodology for Current Account and Exchange Rate Assessments: Peter Isard – International Monetary Fund, 2001
- Asteriou Dimitorios (2006), Applied Econometrics: A morden approach using E-Views and Microsoft, Palgrave Macmillian Limited, Hamshire.
- Expert and scholars from Selected Emeging and Developing Countries (2012), The BRICS report, First Edition, Oxford University Press, New Delhi.
- Government of India (2012), Economic Survey, Ministry of Finance, New Delhi.
- Gujrati Damodar N (2009), Basic Econamatrics, Fifth Edition, Mcgraw-hill Higher Education, New York
- The Current Account and Foreign Debt -John Pitchford – 2002
- Paneerselvam R (2011), Research Methodology, Phi Learning Privited Limited, New Delhi

- Maddala Gs (2001), Introduction to econometrics, Third Edition, John Wiley and Sons, Singapore.
- International Macroeconomic Dynamics By Stephen J. Turnovsky, MIT Press, 1997

JOURNALS

- Journal of International Economics (Feb 2002)
- Journal of International Finance and Money (December 19, 2006)
- International Journal of Humanities and Applied Sciences Vol. 1 No. 1 (2011)
- International Journal of Humanities and Social Science Vol. 2 No. 7; (April 2012
- Journal of International Business and Economy (2012)
- South-Eastern Europe Journal of Economics 67-79 (2012)
- Journal of Applied Finance & Banking, vol. 3, no. 3, 65-79 (2013)

WEBSITES

www.worldbank.com

www.imf.com

www.freelancer.com

www.econstat.com

www.ecotrading.com

www.indexmundi.com

www.rbi.org.in

www.sbi.com

www.bcb.gov.br

www.cbc.gov.tw

www.cbr.ru

www.resbank.co.za

www.investopedia.com

www.economicsnetwork.ac

www.theglobaleconomy.com

www.beginnersinvest.about.com

www.indiastat.com

www.buoyanteconomies.com

www.gr8ambitionz.com

NEWSPAPER

- Times of India
- Hindustan Times
- Economics Times
- The Hindu

RESEARCHER

ANURADHA AGARWAL

SUPERVISOR

PROF. V. K. GANGAL

HEAD

DEPT. OF APP. BUSS. ECONOMICS

DEAN

FACULTY OF COMMERCE